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C O R R E C T E D C O P Y (ADDED CANBERRA AS INFO)

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SUBJECT: NEW GM HOLDEN CHIEF LOOKS TO ADAPT COMPANY TO  
CHANGING AUSTRALIAN MARKET

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11. (SBU) Summary: Newly arrived General Motors (GM) Holden Managing Director (MD) and Chairman Mark Reuss told Melbourne Consul General and Commercial Officer on May 14 that he intended to increase his company's dwindling market share through changes in marketing and making vehicles that consumed cheaper fuel. He affirmed that GM Holden had a stake in continuing operations in Australia but was hampered by high labor costs. In this connection, he awaited the findings of a report that would make recommendations to the government regarding continued subsidies to car manufacturers. The new managing director criticized the Australian government's recently announced tax hike on luxury vehicles, which was promulgated without consulting the industry. End Summary.

12. (SBU) Reuss told Melbourne Consul General and Commercial Officer that he planned to implement a number of changes to improve the company's market share. Chief among these was to produce cars with engines capable of running efficiently on 85 percent ethanol and liquid propane gas in V6 models only. Reuss waved away concerns that greater ethanol consumption would deplete food stocks and raise prices, observing that ethanol production accounted for only 2 percent of food prices worldwide.

13. (SBU) The GM Holden MD observed that his company was "not doing well, but it was not doing badly either." Although GM produces less than 15 percent of the one million cars sold annually in Australia, it was making money on the cars sold domestically and abroad, mainly in the Middle East and the U.S. Australian buyers tended to be mainly men and brand loyalty to GM Holden and Ford was "almost tribal" (Comment: Holden also benefits from significant domestic fleet sales. End Comment). He affirmed he would like to shift the market paradigm to appeal more to women and ethnic communities and place less emphasis on high performance vehicles.

14. (SBU) Our interlocutor noted that high labor costs in Australia, driven by a tight labor market and by gains of the unions that are working the mining boom, were hampering him. He said that GM Holden was eagerly awaiting the findings of the report, commissioned by the federal Department of Innovation, Industry, Science and Research, to be released in late July on Australia's automotive manufacturing industry.

He stated that his company had prepared a detailed submission to the team headed by former Victorian Premier Steve Bracks. In the event the Bracks report recommends continued GOA support for automobile manufacturing in Australia, Reuss expected that a budget supplemental would be proposed to continue subsidies to the car makers. At present he estimated that the Australian government gives GM Holden a subsidy of about A\$700 per automobile produced to defray labor costs.

¶5. (SBU) Since Australia is GM's "homeroom" for rear wheel vehicle design with a design and engineering shop in Melbourne, Reuss stated there is more flexibility in making design changes to keep up with the market. He contrasted GM's structure with that of Toyota which uses a much more centralized design path and control system with a long and very complex supply chain. Reuss is convinced that GM Holden has a fundamental strategic competitive advantage over Toyota in the Australian market, in which GM has a long term stake.

¶6. (SBU) Asked about the federal budget presented on May 13, Reuss characterized the increased luxury tax from 25 percent to 33 percent on cars above a threshold value of A\$57,000 to be "very harmful." He claimed that he had first heard of proposed increase when in Perth with Ford Australia Managing Director Bill Osborne. Both men expressed surprise at the tax hike, as the government had not consulted anyone in the industry prior to announcing it. GM Holden had made its negative views on the tax plain to the government, Reuss averred. (Comment: Some commentators saw this tax hike as a form of protection for domestic manufacturers. Post understands that in fact, most cars in Australia costing over A\$57,000 are imports; the flagship Holden Commodore comes in under that sticker price. End comment.)

¶7. (SBU) Finally, Reuss claimed that the fact there were 55 brands of automobiles available to the Australian market was a result of "dumping." Manufacturers from all over the world

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shipped excess vehicles to Australia because the tariffs were so low and profits to be made were high.

¶8. (U) This message was cleared with Embassy Canberra.  
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